

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

DIVISION OF CREDIT UNIONS

NEWSLETTER

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COMMISSION SCHEDULES FIRST MEETING

On March 25th the Senate gave their consent to Governor Mel Carnahan's naming of seven members to the Missouri Credit Union Commission, which was established by the 1998 General Assembly. The first Commission meeting is scheduled for April 16th at 11:00 A.M. at the Division of Credit Unions office. Election of the Commission's chair and secretary, and consideration of proposed rules and regulations relating to procedures for hearings and field of membership are on the agenda.

PROPOSED LEGISLATION UPDATE

As we reported in the last newsletter, the Division of Credit Unions is particularly interested in three bills before the legislature.

- House Bill 14 provides supplemental spending authority for implementing last year's House Bill 1323; in particular to fund the Credit Union Commission's expense. This bill is waiting for the governor's signature.
- House Bill 7, which provides funding for the next fiscal year's budget, has been third read in the house and was marked up in the senate budget committee on March 30th. No changes were made to the bill's credit union section.
- House Bill 825 which modifies the Division's fee structure, was amended into House Bill 822 on the house floor, and will be third read in the house next week.

This session of the legislature is more than one-half over so activity is expected to increase in the next several weeks.

NCUA TO REVISE CALL REPORT

In addition to addressing field of membership issues, Public Law 105-219 (HR-1151) mandated that credit unions follow generally accepted accounting principles (GAAP). Consequently, NCUA has made significant modifications to the format of the 5300 Call Report.

Beginning with the September 1999 cycle, credit unions will see three key changes:

1. The federal credit union and state credit union versions will be combined into a single form. Items marked as "FCU Only" will not be relevant for state chartered credit unions.
2. The Statement of Financial Condition as well as the Income and Expense pages will be revised to comply with GAAP.
3. Additional information will be requested regarding leasing activity, cyberbanking, and borrowing arrangements.

Specific changes will be most notable on the first three pages of the report:

- Cash is now reported on line 1.
- Balance sheet reporting of investments will segregate Trading Securities, Available for Sale Securities, and Held-to-Maturity Securities to correlate with the Investment detail.
- Capital in corporate credit unions will be recognized as Membership Capital or Paid in Capital. [Membership shares in Missouri Corporate Credit Union are defined as Membership Capital]

- The NCUSIF will be listed as other assets rather than as an investment.
- Shares will be included in total liabilities.
- The income and expense page will be formatted to comply with GAAP by moving accounts into Interest Income, Interest Expense, Non-Interest Income, and Non-Interest Expense.

Although consideration was given to waiting until after 1/1/2000 to implement the revisions, provisions in the law did not permit the postponement of required changes. Therefore, all credit unions over \$50 million in assets will see the new form beginning 9/30/99. Every Missouri credit union will use the new version for year-end reporting.

If you have any questions as you complete the call report, please call your assigned examiner. Division staff will be happy to help.

Credit unions are reminded that the changes begin with the September 1999 cycle.

PROMPT CORRECTIVE ACTION

Public Law 105-219 (HR-1151) also requires the NCUA to follow procedures based on a credit union's capital position, to minimize loss to the share insurance fund. These procedures are known as "Prompt Corrective Action".

Basically the new law calls for increasingly restrictive regulatory actions as a credit union's capital falls below certain thresholds. There is an exception for credit unions less than 10 years old and less than \$10 million in assets. There are five capital levels ranging from well capitalized to critically undercapitalized. A well-capitalized credit union has net capital greater than 7%. Of course this is a minimum amount defined for the purposes of the statute and may not be adequate for most credit unions. Many factors determine capital adequacy and the board of directors should consider all relevant factors.

What does this mean to Missouri's state chartered credit unions? It is important to

remember that these standards are for regulatory purposes and in no way should be construed as an endorsement of any capital positions. The statutes only set minimum amounts to avoid regulatory action. Fortunately as of 12/31/98, only 5 Missouri chartered credit unions were below 7% net capital and 3 of these were above 6%. The Division of Credit Unions will be working aggressively with these credit unions to improve their capital to at least the 7% level prior to this statute becoming effective in August 2000.

In conclusion, Missouri credit unions should be aware a new regulatory requirement will be in place for credit unions with net capital less than 7%. Management should take whatever action necessary to avoid triggering a regulatory response.

FROM THE DIRECTOR

During my first month as Director I attended one credit union annual meeting and the St. Louis chapter meeting. I also visited seven credit unions. My schedule for April includes chapter and manager's meetings, and credit union annual meetings.

The dress for examiners, while in the field, has been relaxed. "Business casual" will now be appropriate for the examiner staff if the credit union's policy permits this type of dress for their employees or on certain days. "Business proper" is required for examiners when conducting conferences with credit union management, board and supervisory committee members.

On a personal note, our home in Ozawie, Kansas has sold and we have purchased a home in Jefferson City. We look forward to getting the move behind us.

John P. Smith, Director